

ID: CCA_2010022410540937

Number: **201012049**

Office:

Release Date: 3/26/2010

UILC: 6231.05-00

From:

Sent: Wednesday, February 24, 2010 10:54:11 AM

To:

Cc:

Subject: RE: TEFRA

We do not have to issue an FPAA to B and C but we will be bound by the partnership items of B and C in computing A's basis under section 705. See *Roberts v. Commissioner*, 94 T.C. 853, 860 (1990).

If we choose not to issue an FPAA to B and C, we will be bound by B and C's reported partnership items in computing A's basis. Generally the partnership items of B that affect A's basis are, as listed under section 705: the contributions to and distributions from B, and A's share of B and C's income/losses. But A's "outside basis" in B is not generally itself a partnership item of B or C. It is just computed based on the partnership items of B and C. We can require A in A's audit to provide the K-1's they received to substantiate their basis.

We only have to issue an FPAA to B or C if we disagree with the reported contributions/distribution or income/loss reported on the Schedules K-1 issued by them.

The above procedures are reflected in the partnership audit manual as recently updated. The Exam team should contact _____ to get the IRM procedures for this type of audit.